



hoosier lottery™

State Budget Committee  
December 13, 2012

# Agenda

1. Legislative intent for the lottery, in statute
2. Business case for considering outsourcing additional function
3. Contract Structure
4. Business Plan
5. Fiscal Results



## **Section #1**

# Legislative Intent for the Lottery



# Legislature's Public Policy Intent for the Lottery

## **IC 4-30-1-1 Purpose**

Sec. 1. The purpose of this article is to establish lottery games in Indiana that are the best available and that enable the people of Indiana to benefit from significant additional money for capital improvements.

## **IC 4-30-1-2 Intent**      Sec. 2.

(3) That the lottery games be operated as a self-supporting revenue raising operation.

## **IC 4-30-5-3 - Operation of lottery**

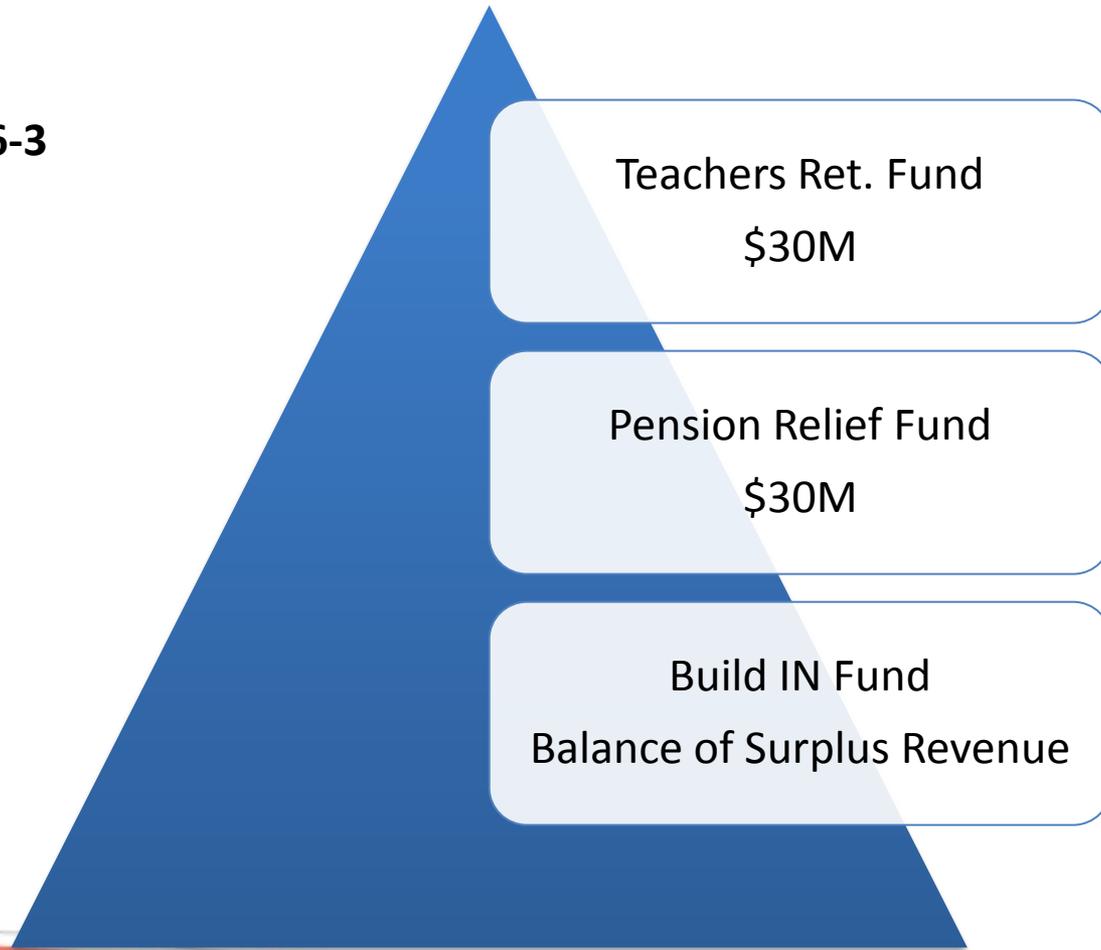
Sec. 3. The director shall operate the lottery to maximize revenues in a manner consistent with the dignity of the state and the welfare of its citizens.

## **IC 4-30-5-3 – Allocation of Revenues and expenditure of funds**



# Legislature's Public Policy Intent for the Lottery

**IC 4-30-16-3**



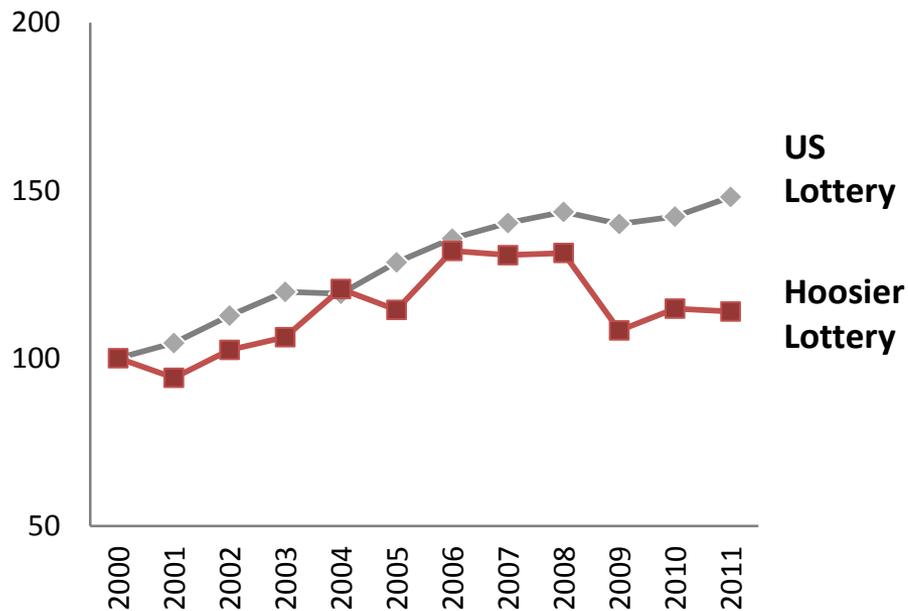
**Section #2**

Business Case

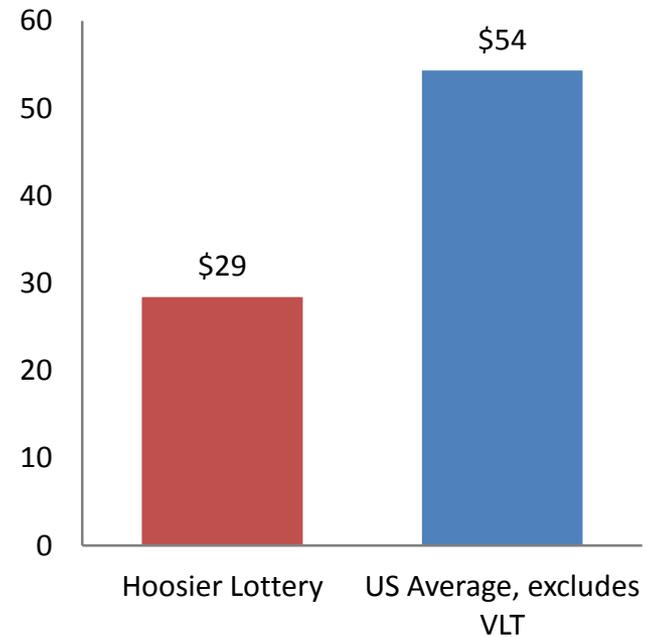


# Hoosier Lottery Lags US Performance

**Net Income: HL vs. US Lottery Industry<sup>1</sup>**  
2000-2011 (Indexed 2000 = 100)



**Net Income Per Capita Comparisons**  
FY11, USD

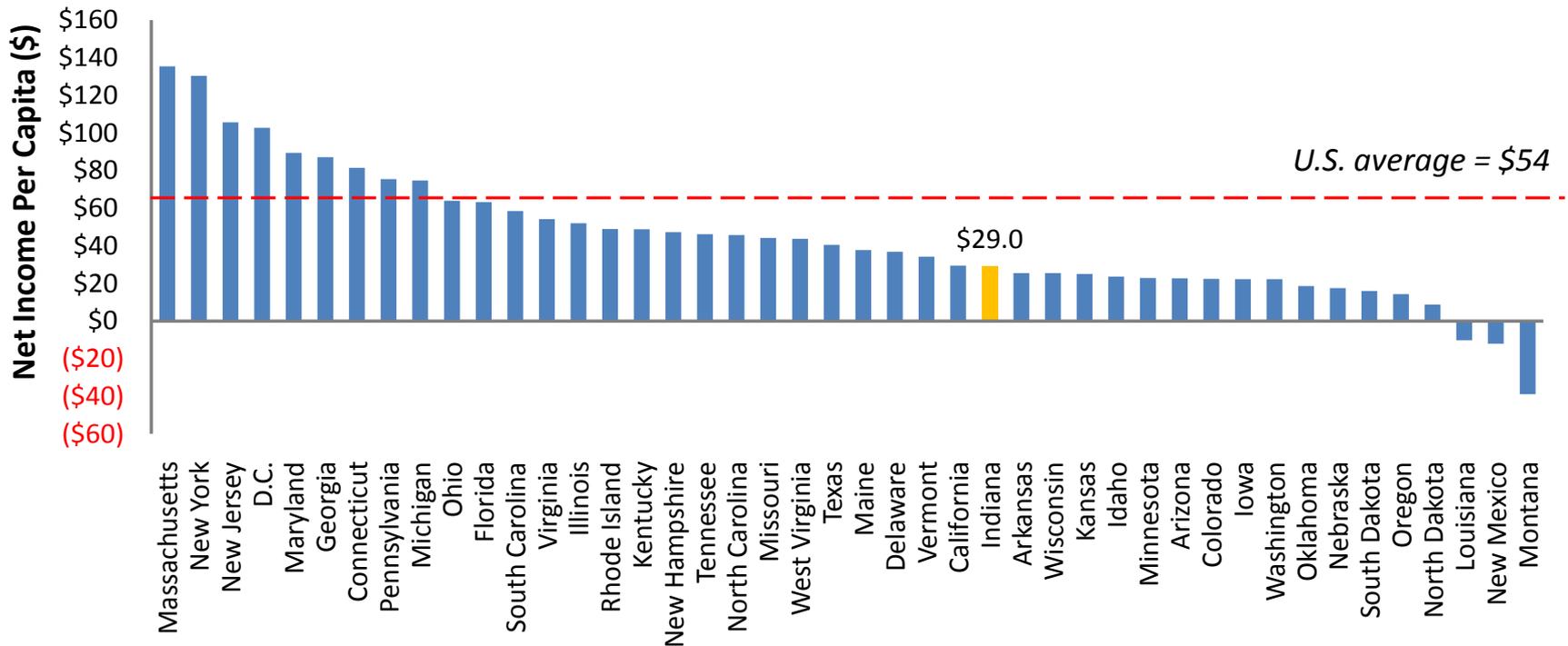


<sup>1</sup> Only lotteries that have been in operations since 1990 were included in the US Lottery calculation



# U.S. Lottery Benchmarks: Per Capita Net Income

## U.S. Lotteries Net Income Per Capita (Excludes VLT<sup>1</sup>) FY11



Source: La Fleur's 2011

<sup>1</sup> Government VLT profit was used as a proxy to exclude profit gained from VLT – some indirect costs were not removed may not have been removed



## **Section #3**

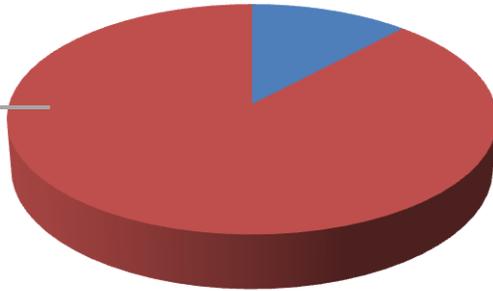
## **Contract Structure**



# Incremental outsourcing – true risk-sharing

## Before and after – Lottery composition

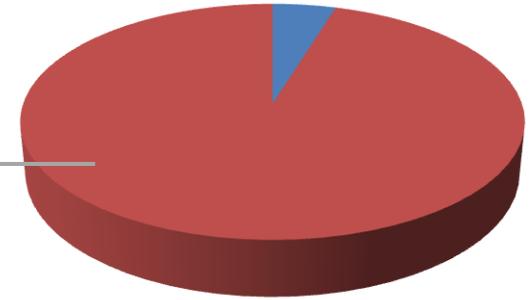
Contracted Services (88.1%)



### In-house

- Executive management
- Finance
- Legal
- Retail licensing
- Prize claim verification
- Security
- IT

Contracted Services (95.3%)



- Game design
- Instant Ticket printing
- Media planning and purchase
- Advertising creative and production
- Terminals and network
- Marketing
- Promotions
- Instant ticket distribution
- Retailer service & recruitment

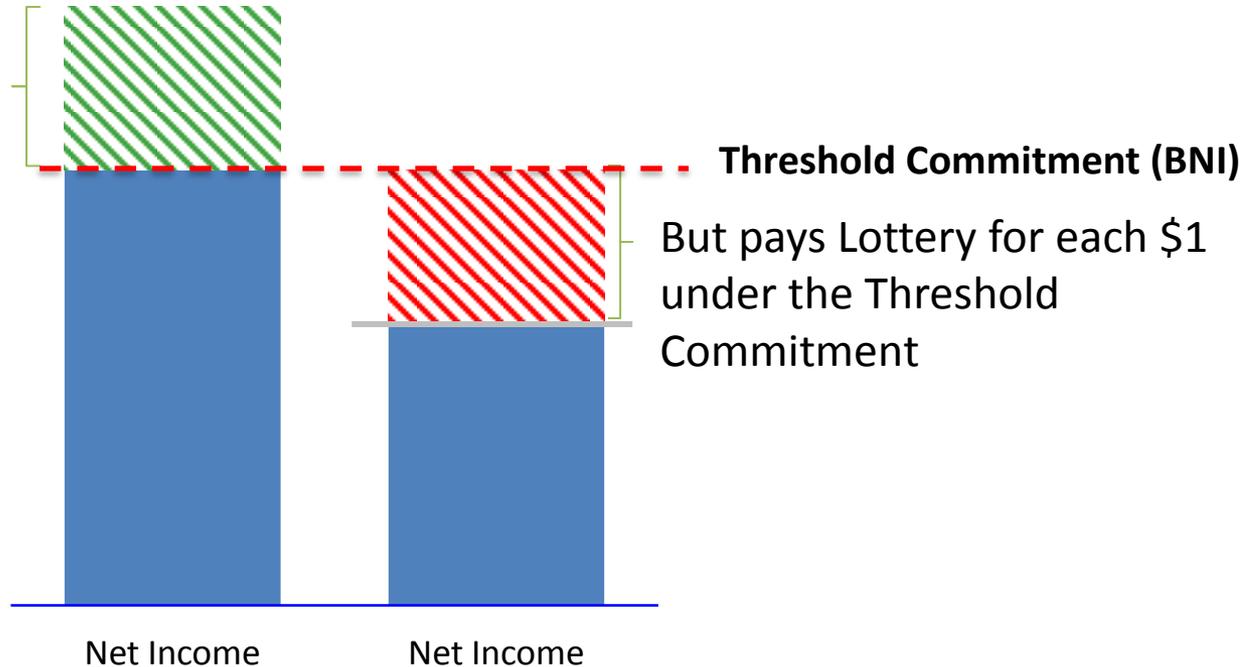


# Incentive Structure

## Incentives and security



Provider receives bonus for each \$1 over Threshold Commitment



*Incentive and Penalty are capped at 5% in compliance with DOJ ruling.*



# Operating Expenses

- Provider is reimbursed for expenses incurred for operating lottery functions.
- Lottery Commission approves all budget expenses annually.

## Management Fee

(\$000)	FY14	FY15
Formerly paid by Lottery	\$9,617	\$10,024
GTECH Staff Aug.	\$5,079	\$4,129
GTECH Investment	\$1,434	\$1,439
<b>Total</b>	<b>\$16,130</b>	<b>\$15,593</b>

## Lottery Expenses

(\$000)	FY14	FY15
<b>Total</b>	<b>\$51,786</b>	<b>\$58,802</b>

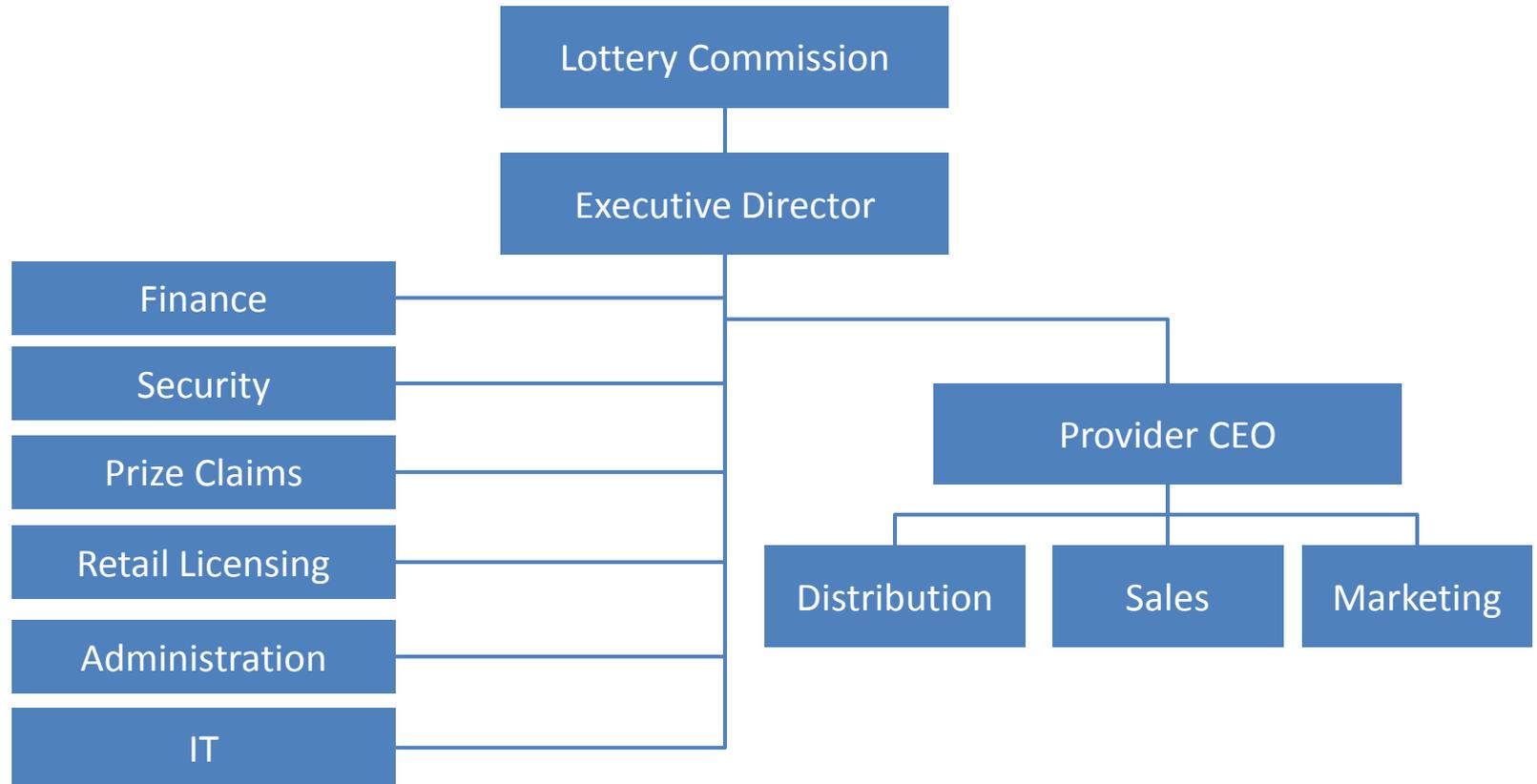
Note: Lottery expenses are a function of sales (increase/decrease based on actual sales). Provider reimburses Lottery if under spent; “eats” spending in excess of.

All expenses are included in developing the actual income. The provider must cover these expenses before incentive eligibility.



# Lottery Governance

## Who makes the decisions?



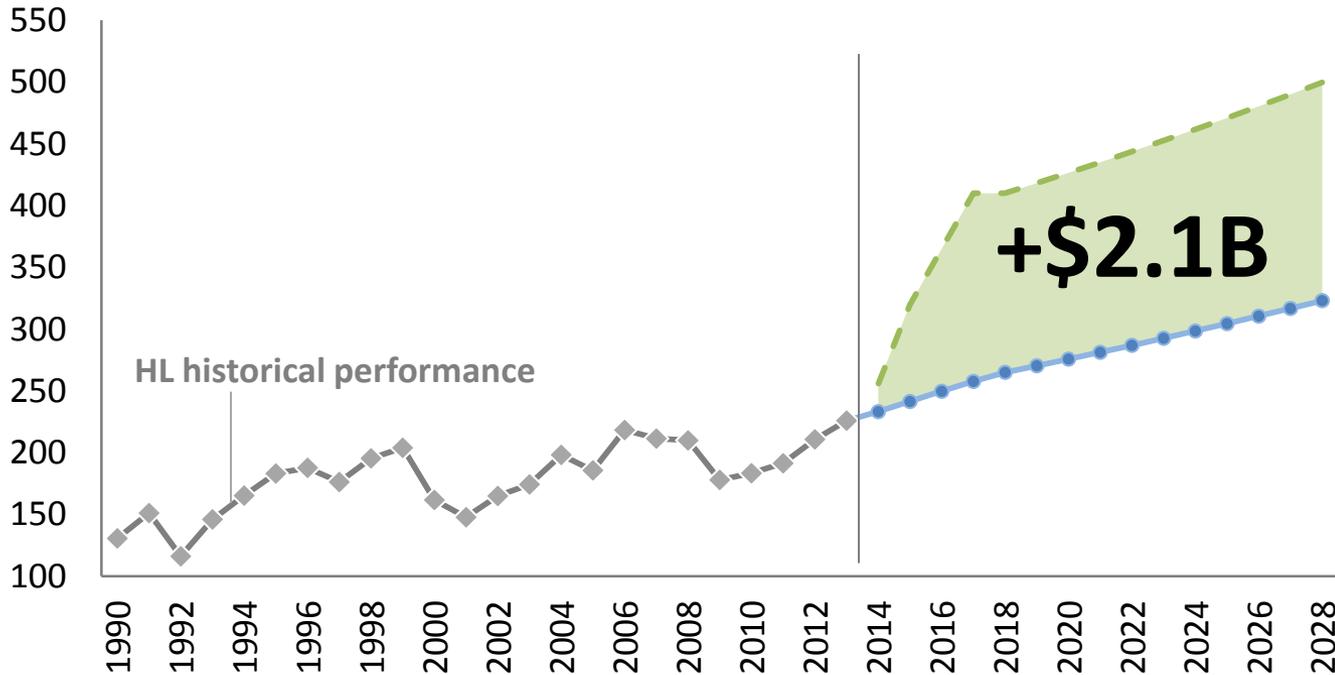
**Section #4**

**Business Plan**



# Provider Commitment Exceeds Lottery Capability

**Hoosier Lottery Income (\$M)**  
FY12 actuals; FY13-FY28 estimates



**Cumulative  
Income  
FY14-FY28**

**Threshold** \$6.340B

**Lottery  
projection** \$4.208B



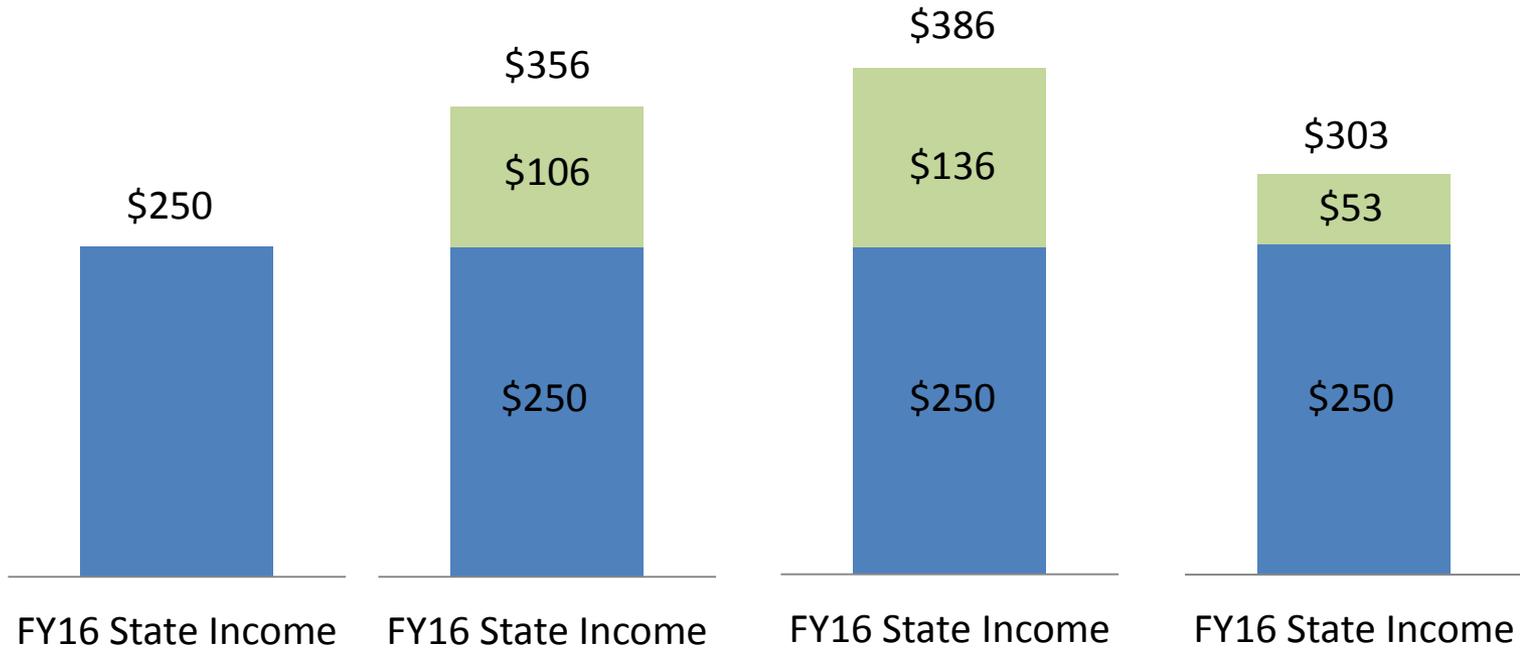
# ...the State wins...Every Example

HL projection:

Meet threshold:

Exceed threshold:

Miss threshold:



**+% from projection:**

**+43%**

**+55%**

**+21%**



# Business plan strategies: Overview

- Expand the Player Base
- Reengineer the Instant Ticket category
- Energize and innovate draw games
- Expand the retailer network
- Maximize advertising investment
- Align sales staff priorities
- Enhance Brand Equity

All of these are strategies that are employed by the lottery in limited degrees.

The differences are:

- velocity
- talent and expertise
- integrated use of advertising dollars



# Benefits – a win for all stakeholders

<b><i>Taxpayers</i></b>	<ul style="list-style-type: none"> <li>• Every additional dollar contributes to the General Fund</li> <li>• 58 New taxpayers added to the rolls</li> </ul>	<ul style="list-style-type: none"> <li>• Avg. annual pay of new jobs: \$79K</li> </ul>
<b><i>Consumer</i></b>	<ul style="list-style-type: none"> <li>• More Fun</li> <li>• Increased ways to win</li> </ul>	
<b><i>Retailers</i></b>	<ul style="list-style-type: none"> <li>• Increased sales</li> <li>• Increased enthusiasm</li> <li>• More commissions</li> </ul>	<ul style="list-style-type: none"> <li>• \$200M added commissions in 1<sup>st</sup> 5 years</li> </ul>
<b><i>Employees</i></b>	<ul style="list-style-type: none"> <li>• Opportunity to work for world-class lottery manager</li> <li>• Enhanced career opportunities</li> <li>• More training and support</li> </ul>	<ul style="list-style-type: none"> <li>• 126 transitioned people</li> <li>• 7.6% salary increase (incl. annual adjustment.)</li> </ul>



# Today's Demographics

- Gender
  - 51% of players are women;
  - 54% of players are between ages 35-54;
- Age - 12% are younger than 35;
- Education - 75% of players have more than a high school education;
- Location
  - 50% of players are from central IN;
  - 15% in the south of the state;
  - 35% in the north of the state;
- Income
  - 31% of players earn between \$25K and \$50K;
  - 49% earn above \$50K
- The median income in IN is somewhere around \$46K.

Source: IPSOS. Survey conducted on behalf of the Hoosier Lottery



## **Section #5**

## **Fiscal Results**



# 5 Year Budget Projection

	Threshold Scenario				
	FY14	FY15	FY16	FY17	FY18
<b>Bid Net Income (BNI)</b>	<b>\$256</b>	<b>\$320</b>	<b>\$365</b>	<b>\$410</b>	<b>\$410</b>
Max. shortfall payment (5% of BNI)	\$13	\$16	\$18	\$21	\$21
Max. incentive payment (5% of PNI)	\$13	\$16	\$18	\$21	\$21
<b>Provider Net Income (PNI)</b>	<b>\$256</b>	<b>\$320</b>	<b>\$365</b>	<b>\$410</b>	<b>\$410</b>
Incentive payment earned	\$0	\$0	\$0	\$0	\$0
Shortfall payment paid	\$0	\$0	\$0	\$0	\$0
Lottery retained expenses	\$9	\$9	\$9	\$9	\$9
<b>Surplus income (to the State)</b>	<b>\$247</b>	<b>\$311</b>	<b>\$356</b>	<b>\$401</b>	<b>\$401</b>
<b>Estimated internal organic performance<sup>1</sup></b>	<b>\$233</b>	<b>\$242</b>	<b>\$250</b>	<b>\$258</b>	<b>\$265</b>
Improvement over internal (\$)	\$14	\$70	\$106	\$143	\$136
<i>Improvement over internal (%)</i>	<i>6%</i>	<i>29%</i>	<i>43%</i>	<i>56%</i>	<i>51%</i>





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